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AUTHOR Koike, Shohei
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ABSTRACT

Economic analysis, with its explicit assumption that people are rational, is applied to the Japanese and American business cultures to illustrate how the approach is useful for understanding cultural differences. Specifically, differences in cooperative behavior among Japanese and American workers are examined. Economic analysis goes beyond simple cultural stereotypes to explain behavior in different cultures, attributing behavior variations instead to differences in the relative prices of goods and services, values and beliefs that people act upon, and/or institutional constraints that have developed historically. Economic analysis allows interested observers to anticipate the behavioral patterns of workers and to study, empirically, changes in workers' values and beliefs and changes in the institutional setting. (MSE)

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RATIONALITY AS THE BASIC ASSUMPTION IN EXPLAINING JAPANESE (OR ANY OTHER) BUSINESS CULTURE

by

Shohei Koike

Department of Foreign Languages
and Bilingual Studies
Eastern Michigan University

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Introduction

Perceptions of Japan both by Japanese and foreign observers have undergone a marked change between the publication of Ruth Benedict's Chrysanthemum and the Sword in 1946 and the publication of Ezra Vogel's Japan as Number One in 1979. However, the primary focus of many studies on Japanese attitudes and behavior has remained almost the same, that is, to describe how different and unique Japanese values and behavioral patterns are in comparison with those in the Western cultures. As David W. Plath (1983, p.17) pointed out:

> Studies of contemporary Japan most often start by assuming that Japanese society and culture are inherently different from those in the rest of the world. The goal of such a study, then, is to discover and document the differences.

Discovering and documenting the differences are no doubt an essential component of the cross-cultural analysis. A major problem with many Japanese studies, however, lies in the ways the differences are presented. Most often, the differences are described in terms of absolutes, that is, such dichotomies as "shame culture" vs. "guilt culture," individualism vs. groupism, "high context culture" vs. "low context culture." The differences are also explained away by referring to such "uniquely" Japanese concepts as amae (emotional need for mutual dependence) and tate (vertical) society. For example, Japanese workers are often characterized as group-oriented, harmonious, loyal, and cooperative in sharp contrast with individualistic, independent,

self-assertive, and confrontational Western workers. The behavioral characteristics are then attributed to Japanese cultural values and norms that are considered to constitute the basis of those operative principles or dichotomous concepts described above. Japanese workers are, for example, considered loyal and group-oriented because they are the products of a "high context culture," "tate shakai" (vertical society), etc.

The stereotypes derived from such simple concepts may serve as a convenient time-saving device for those people who have to strike a balance between the cost (or the consequence) of being ignorant of a foreign culture and the cost of obtaining information about the culture. However, subscription to such stereotypes will not only sacrifice the quality of information, but also fail to subject the cross-cultural differences and similarities to comparative analysis.

In the following I will make an attempt to apply economic analysis--which explicitly assumes that people are rational--to cross-cultural study. The purpose of this paper is to demonstrate that economic analysis is instrumental in understanding some cross-cultural differences. For this purpose, I will examine the differences in cooperative behavior between Japanese workers and American workers and will show how economic analysis will help one to understand why they behave differently.

Rationality and Economic Analysis

Economic analysis of human behavior is based on the assumption that people are rational in the sense that they can order, within limits, alternatives on the basis of their preference and can make a choice in such a way as to maximize their satisfaction. In other words, people know, within limits, what they want and choose more of what they want than less.

It is important to note that rationality pertains to the process of making a choice, but not to values and goals people act on. Values, preferences, and goals are considered neither rational nor irrational. People are considered to act rationally as long as they work consistently according to their values toward maximizing their satisfaction. People are rational in terms of what they are aware of; they make mistakes as they have only imperfect knowledge. People also fail to achieve their goals because they will receive benefits only in the relatively distant future while they incur immediate costs. People do not always know what they want, either, and they may act on their emotions. Despite these limitations, economic analysis assumes that much of human behavior is rational.

Any choice a person makes involves cost--what he must give up by choosing one alternative rather than another. For example, an individual must give up time, which means money to many people, even when he eats a "free lunch." A rational person who

has to attend an important meeting will not go for a free-of-charge lunch if what he expects to give up by missing the meeting (the cost of a "free lunch") exceeds the benefit he expects to receive from the "free lunch." Economic analysis assumes that people make choices in such a way as to maximize the net gain--the difference between the expected cost and the expected benefit.[2]

Application: Cooperation in an Interdependent World

We live in a world of interdependence. We act not only on our values and beliefs but also under a set of institutional and interpersonal constraints, taking into account expected choices of others. This seems true in any business organization. As Richard Pascale and Anthony Athos (1981, p. 190) wrote:

> Organizational relationships are based on interdependence. As every executive knows, peers, superiors, and subordinates provide support and assistance to one another, and they depend on one another even when they pretend otherwise.

Economic analysis suggests that employees, whether Japanese or American, try to maximize their utility for oganizational or group interdependence, that is, they will choose an optimum level of interdependence. The rational choice on the level of interdependence involves the subjective evaluation of the costs and benefits of interdependence. The question to be examined here is why there are, if any, significant differences in the expectation of the costs and benefits among Japanese and American employees.

Interdependent relations are founded on expected reciprocity or the anticipation of an exchange of goods and services including assistance and support. How much a rational employee will contribute to the development and maintenance of an interdependent relation will depend on his expectation of how much to gain and how much to lose through his contribution. Such an expectation is considered to be affected by his internalized

values as well as the institutional setting that provides a set of incentives and constraints.

It has been pointed out that interdependence is a significant cultural norm or principle in Japanese society. Robert Smith (1985, p. 40), for example, claims:

> What <u>is</u> unusual (about Japanese society) is that the acknowledgment of interdependence is so open and the importance of group affiliation made so throughly explicit. It is taken for granted that human relationships are reciprocal and complementary in character, and everyone is made aware from the earliest stage of life that human being is the product of interrelationships with others.

It seems true that most Japanese acknowledge the significance of interdependence in human relations. However, it is open to question whether the open, explicit acknowledgment of interdependence by the Japanese is "unusual." It may show a contrast with the American emphasis on the principle of independence, but the open acknowledgment of interdependence may not be a monopoly of the Japanese.

It is also important to note that the Japanese acknowledgment of interdependence is intertwined with the equally significant notion of reciprocity. To most Japanese, interdependence is not an abstract principle which would be universally applied to the human race. Interdependent relationships are developed and maintained among those people who <u>can expect</u> from each other an exchange of goods and services including affection, friendship,

cooperation and loyalty. Such reciprocal relationships could be asymetrical, and there could be a long time lag in an exhange of goods and services.

At the psychological level, interdependence means that one's emotional state of mind will be affected by his anticipation of what others around him will feel about his own action and how they will react to it. Other things being equal, it seems that an average Japanese is emotionally more affected than an average American is by what others around him will feel about his attitude and behavior. For example, an average Japanese who behaves rationally is more reluctant to say a flat "no" to a request made by others with whom he has an interdependent relationship. In making a decision on how to reply, he anticipates that his negative answer will adversely affect others' feelings and/or positions, and he worries that they will have negative feelings toward him. He may be afraid that such negative feelings will have an unfavorable effect on future relationships. In other words, saying a flat "no" will affect his emotional well-being more than that of his American counterpart. Even when his rational choice is to turn down the request, he tries to do so in such a polite, implicit way that he may at least reduce the anticipated ill effect on his emotional state of mind. This process usually works among his fellow Japanese. However, when dealing with Americans, he may have to learn that

his strategy will be no longer a rational choice.

One manifestation of inderdependence in the organizational setting is cooperation or mutual assistance among employees. Japanese workers are often considered more cooperative than American workers, that is, the optimum amount of assistance that a Japanese worker provides to his fellow workers is greater on the average than the amount an American counterpart does to his colleagues. If this is the case, the question is under what conditions rational American and Japanese workers behave differently--what affects their expectations of costs and benefits of being cooperative.

Suppose that a Japanese male white-collar worker named Tanaka is employed by a large Japanese company, while an American male white-collar worker named Smith is employed by a large U.S. company. Further, suppose that the two companies are in the same business and that both employees hold a similar junior rank position. When providing assistance to their colleagues, Tanaka and Smith will have to give up a certain amount of autonomy which they would have otherwise in carrying out their own work. A decline in autonomy is considered the cost of providing assistance, which will rise as the amount of assistance increases. How costly it is to reduce their autonomy depends on the relative weight each employee places on the value of the autonomy. The higher the relative value of the autonomy is, the higher the relative cost of being cooperative. Because of the cultural emphasis on the principle of independence in America,

the relative value of the autonomy may be higher for Smith than for Tanaka. To this extent, Smith will be less cooperative than Tanaka when other things are held constant.

The above analysis would hardly be an economic analysis without an inquiry into the expected return (gain) from becoming cooperative and the effect of the institutional setting on the rational choice of cooperation. Consider this time what Tanaka and Smith may have to give up if they are not cooperative with their colleagues, that is, the cost of not being cooperative. How much they expect to lose will be affected by the value of cooperation as their internalized norm, and much more importantly by the value of cooperation in the institutional setting--how important the mutual assistance is in each of the organizations.

Suppose that like many large companies in Japan, Tanaka's company organizes small working groups called kakari or sections within larger organizational units such as departments. As Vogel (1979, p. 143) writes:

> A section might have eight or ten people, including the section chief. Within the section there is not as sharp a division of labor as in an American company. To some extent, each person in the same section shares the same overall responsibility and can substitute for another when necessary.

This organizational arrangement makes employees more inter-dependent upon each other than an arrangement that organizes a larger number of functionally-differenciated employees under

a single manager or department head.

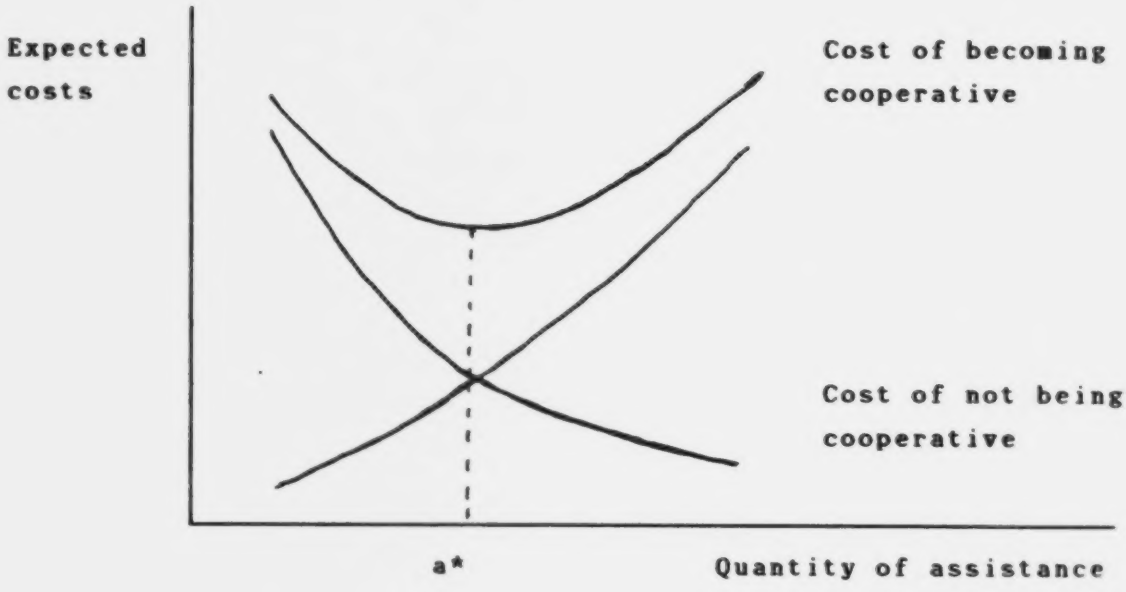
Tanaka's company is also no exception among Japanese companies in that it regards the ability to cooperate or at least to get along with colleagues as a significant quality for promotion, probably more so than Smith's company. For his promotion, Tanaka will probably need to rely on his colleagues' good will, esteem, and cooperation to a greater extent than Smith. Members of such a working group keep a close eye on each other; each is much concerned with what others will think of how cooperative he is. At the same time Tanaka may feel a deeper sense of belonging than Smith who works in a larger organizational unit. This small group arrangement will then have the expected cost of not being cooperative relatively high for Tanaka.

Suppose that Tanaka's company also encourages employee involvement in decision-making process (not necessarily decision-making itself) more than Smith's company. Tanaka then may feel a greater sense of satisfaction from the cooperation with his colleagues in participating in the decision-making process. This emphasis on employee involvement in decision-making process is considered another incentive for cooperation.

The price Tanaka expects to pay if he is not cooperative is considered to decline as he increases the amount of assistance to colleagues. A reduction in this cost can be regarded as a return or benefit from becoming cooperative. The optimum amount of assistance Tanaka provides is obtained when he minimizes the total of the two costs--the cost of becoming cooperative and the

cost of not being cooperative. The two cost functions and the vertical summation of them are graphically presented in Figure 1. The optimum amount of assistance is the amount corresponding to point a* in Figure 1 where the total cost of cooperation is minimum, that is, Tanaka's utility from becoming cooperative is maximized. (In terms of the marginal cost-benefit analysis, this is equivalent to saying that the marginal benefit from becoming cooperative equals its marginal cost at point a*.)

Figure 1: Optimum Amount of Cooeration



A rational emoployee expects that he will incur costs if he

is not cooperative, but at the same time he knows that he will have to give up a certain amount of autonomy if he becomes cooperatitve. Both Tanaka and Smith are expected to balance the cost of being cooperative against the cost of not being cooperative in such a way as to maximize their utility from the interdependent relationships in each organization. Under the above-mentioned assumptions on the institutional setting, the cost of not being cooperative is considered relatively higher for Tanaka than for Smith. That is, the expected gain from reducing this cost by becoming cooperative will be relatively larger for Tanaka than for Smith. Other things being equal, then, Tanaka is considered more cooperative than Smith.

There seem to be other institutional differences which will make the cost of not being cooperative relatively higher for Tanaka than for Smith. When a rational employee leaves his company voluntarily, he considers how costly his exit will be relative to other opportunities. If he has a lot to lose by leaving the company (for example, job security) and has difficulty finding another job which pays as well as or more than his present job, the expected exit cost is considered relatively high. The high exit cost often means that an employee will have few other opportunities than continuing his career in the same company. He and his colleagues will then have more incentives to depend on each other for successful career in the same company.

Large companies in Japan regularly (once a year) recruit college graduates with litte work experience and provide them

with extensive on-the-job training for a long period of time. New recruits are assigned to different sections or departments and are expected to learn a variety of skills which are highly enterprise-specific. Tanaka's company is one such company which has a highly internalized labor market, promoting long-time employees to manegerial positions rather than recruiting from external sources. To the extent that other large companies observe these practices on training and promotion, it is costly for Tanaka to leave his company for another job.

Like many Japanese workers, Tanaka starts his career with a relatively low wage and gets promoted at a slow pace. The low starting wage and slow promotion are compensated by job security, a steady rise in salary with seniority, and a large lump-sum retirement payment. The longer Tanaka will work for the same company, other things being equal, the larger the retirement payment he will receive. The relative security in his job, steady rise in salary with seniority--by no means the only determinant for salary increases--and large retirement payment are expected to make the cost of early exit relatively high for Tanaka.

One of the significant skills for white-collar workers in Japanese companies is to develop a network of interpersonal and professional relationships with colleagues not only within but also outside their company. Cultivating such a network seems significant in any business culture, but probably more so in

Japan than in the U.S. Its contribution to success in making business deals seems greater in the Japanese business environment. Japanese companies tend to value a high-trust, long-term trading relationship to a greater extent even when they have to trade off a price advantage which a short-term, low-trust transaction may offer. Such a business relationship is developed and maintained through a close personal contact between employees of each party. Under this business environment, changing companies will mean, to many Japanese white-collar workers, a loss of the network of personal relationships which they have painstakingly cultivated. As long as this is the case with Tanaka, the expected cost of exit is considered relatively high for him.

Although the exit costs are considered relatively high for employees in large Japanese companies, there are signs that the benefits of being loyal to the same company are declining. The sharp rise of the value of yen against the dollar is causing export industries to lose cost advantages, forcing many companies to make drastic changes in their practices on employment and promotion. The unemployment rate reached a record high of three percent in January 1987--the worst figure since the government began compiling the monthly statistics in 1953. According to the Ministry of International Trade and Industry, some 900,000 workers are now classified as "jobless persons on payrolls," i.e., excess workers and managers.[3] Some large companies in hard-hit industries like steel already laid off thousands of workers, planning to shut down some plants or moving overseas.

The pressure for change is so intense that many large companies have hard time maintaining the not-so-old career employment system and the wage and promotion practices strongly based on seniority. It is now a concern to many Japanese companies to find ways to get rid of surplus workers and managers without losing much face. As the lifetime employment is on the way out in many Japanese companies, there is another factor which is increasing the cost of staying in the same company. An increasing number of joint-venture businesses and frerign-affiliated companies are trying to recruit experienced managers in large companies. Nevertheless, the expected costs of changing jobs are considered still high for most white-collar workers in large Japanese companies.

It is suggested that the institutional constraints such as working group arrangement, peer evaluation, employee involvement in the decision-making process, and mobility in the labor market will affect employees' expectations of how much they will have to give up if they are not cooperative. Under the given set of institutional constraints, Tanaka is expected to pay a relatively high price if he is not cooperative. The cost of not being cooperative is considered <u>relatively</u> higher for Tanaka than for Smith because of the assumed differences in the institutional setting. Then, even if the cost of becoming coopertive is held constant, that is, the value of automomy is the same for Tanaka and Smith, Tanaka is expected to be more cooperative than Smith since the former has to pay a relatively higher price if he is not cooperative.

Concluding Remarks

A rational person who wants to do business in a foreign country cannot be totally ignorant of its business culture. Ignorance will, for example, cost him and his company the opportunity to make successful business deals. The cost he may incur because of his ignorance is expected to decline as he becomes informed. However, becoming informed is also costly in terms of time and resources spent. A rational businessman will try to balance the cost of becoming informed against the cost of being ignorant in such a way as to minimize the total of the two costs. A busy businessman who does not want to be totally ignorant about a foreign culture may find cultural stereotypes attractive as a convenient cost-saving device.

Economic analysis will go beyond saying that foreigners behave differently because of "the differences in culture." It will more than counterbalance the frequent tendency towards stereotypes and "national characteristics" for explaining human behavior in different cultures. Economic analysis suggests that some observed differences in behavior between different cultures will be attributed to differences in (1) relative prices of goods and services, (2) values and beliefs people act on, and/or (3) institutional constraints which have developed historically. Economic analysis suggests, for example, that Japanese employees are as rational as American counterparts; they respond, on the

basis of their values, to different prices and/or different sets of incentives and constraints that exist under different institutional settings. It does not suggest that Japanese workers are always harmonious and cooperative because of the harmonious and cooperative attributes of the Japanese race which have been cultivated in its traditional culture. Economic analysis instead indicates that the Japanese workers who act on the value of interdependence and reciprocity will be relatively cooerative under a certain set of institutional constraints.

Institutional constraints develop "in part by sheer accident; in part by survival in a social evolutionary process; in part by technological necessity; in part by constructive design (correctly or incorrectly conceived)" (Buchanan, 1978, p. 364). Some institutional arrangements are more likely to change at a relatively faster pace than deep-rooted cultural values and beliefs.

Japanese society has undergone marked changes since the end of World War II. The system of organization and human resources management of Japanese corporations are no exception. Big corporations, for example, developed the lifetime employment system after a series of labor-management confrontations. However, the system is already subject to change as the slow economic growth and the strong yen are creating a large number of surplus workers and managers.

Values and beliefs shared by young workers are also changing. According to a recent survey, 60.9 percent of young adults

believe that life should be enjoyed while only 31.3 pecent of their parents' generation share the same sentiment.[4] Another survey shows that 66 percent of young employees polled are not content with their present job and that over 50 percent of them are ready to change jobs.[5] Masakazu Yamazaki (1984, p. 17) asserts to the extent that "the majority of people are no longer concerned solely with the achievement of affluence and equality; they are beginning to demand that they be treated as unique individuals and that other people recognize their uniqueness." According to Yamazaki, the aging (or maturity) of Japanese society is also leading to the diversification of values and lifestyles. Those changes in values and institutional arrangements will no doubt have an impact on behavioral patterns of Japanese workers.

Unlike the stereotypes, economic analysis will allow us to anticipate changes in behavioral patterns of workers. It will lead us to an empirical inquiry into changes in the values and beliefs workers act on as well as changes in the institutional setting. It is to be hoped that this paper may serve as a point of departure for future application of economic analysis to cross-cultural studies.

Notes

1. There is a voluminous literature on Nihonjin-ron (the debate over the uniquness of Japanese values and behavioral patterns. Among the most frequently cited are Benedict (1946), Nakane (1965), Doi (1971). For the concept of high/low context culture, see Hall (1976). Consult Sugimoto and Mouer (1982) for an excellent critique of Nihonjin-ron.

2. See McKenzie and Tullock (1978) for a unique application of economic analysis to studies of human behavior.

3. Japan Times Weekly, March 21, 1987.

4. Time, April 13, 1987, p. 42.

5. Japan Times Weekly, August 16, 1986.

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